

September 23, 2004

Dr. Harriet Smith Windsor  
Secretary of State  
Department of State  
401 Federal St., Suite 3  
Dover, DE 19901

Dear Dr. Smith Windsor:

The Office of Auditor of Accounts (AOA) has completed its investigation of the allegations we received from your Chief of Administration. The following paragraphs detail the results of our review.

### **ALLEGATIONS**

On July 27, 2004, the AOA was contacted by the Department of State's Chief of Administration, Mr. Tim Ferrier, requesting that the following issues be reviewed:

1. Unauthorized use of a state credit card by an employee of the Delaware Heritage Commission.
2. Theft of Delaware Heritage Commission funds.

### **BACKGROUND**

On July 27, 2004, Mr. R. Thomas Wagner, Jr., Auditor of Accounts, Mr. R. Ronald Draper, Chief Administrative Auditor, and Mr. Edward L. Watson, Field Audit Manager, met with Mr. Albert F. Carter, Jr., Deputy Principal Assistant of the Department of State, and Mr. Tim Ferrier, Chief of Administration of the Department of State, to discuss the allegations. The following information was presented:

1. The Delaware Heritage Commission is an agency within the Department of State. The Commission receives funds from the State, which it deposits into a Wilmington Trust checking account.
2. A former employee of the Delaware Heritage Commission used her State of Delaware credit card to make cash withdrawals from an automated teller machine, and she provided no documentation for the withdrawals. She was terminated in May 2004, and her final State paycheck was docked for \$688.06 in order to recover the undocumented credit card charges.
3. The Acting Executive Director identified twelve cancelled checks on which his signature was forged, and which were payable to the employee. The checks totaled \$3,003.32. Eight of the checks were missing and copies were obtained from the bank. There was no supporting documentation for the expenditures.

## **SCOPE AND METHODOLOGY**

Our investigation included a review of available bank statements, bank reconciliations, cancelled checks, disbursement registers, and supporting documentation for expenditures for five bank accounts. We obtained and reviewed available credit card statements and supporting documentation for expenditures. We reviewed the 2002 and 2003 audit reports issued by an independent CPA firm. We interviewed officials and employees of the Delaware Heritage Commission and the Department of State. Our review period covered fiscal years 2002 through 2004.

## **REVIEW RESULTS**

### **Bank Accounts and Investments**

We identified five bank accounts:

- 1) Delaware Heritage Foundation – Wilmington Trust Company Checking Account (the operating account).
- 2) Hands On Heritage Camp of the State of Delaware c/o DE Heritage Commission – Wilmington Trust Company Checking Account.
- 3) DE Heritage Commission Petty Cash Account – PNC Bank Checking Account.
- 4) Delaware Heritage Foundation – MBNA America Bank Certificate of Deposit.
- 5) Delaware Heritage Foundation – MBNA America Bank Certificate of Deposit.

The Delaware Heritage Commission owns 362 shares of Gannett Co. stock, received through a donation, which it holds in a drawer in its office.

### **The Operating Account**

An Administrative Specialist II (the employee) was hired in March 2002. In July 2003, the Executive Director of the Commission retired. In August 2003, the employee started preparing bank reconciliations for the operating account. The employee also wrote checks on the operating account and gave them to the new Acting Executive Director to be signed. Many checks were written and signed without supporting documentation. From August 2003 to April 2004, the employee wrote fourteen checks to herself, which had the name of the Acting Executive Director on the signature line; however, the Acting Executive Director stated that he did not sign the checks. The employee cashed the checks, and there was no supporting documentation for the expenditures.

The following are the fourteen checks at issue.

<u>Date</u>	<u>Check Number</u>	<u>Amount</u>
8/7/03	5182	72.60
8/18/03	5186	53.00
10/9/03	5210	435.00
11/4/03	5215	128.00
11/21/03	5223	375.00
10/21/03	5225	210.00
12/4/03	5231	375.00
12/18/03	5234	73.27
1/2/04	5240	447.00
12/21/03	5247	43.05
12/17/03	5248	347.00
3/1/04	5271	207.00
4/22/04	5306	223.00
4/23/04	5324	140.00
Total		\$ 3,128.92

Our review indicates that the employee attempted to conceal her actions in three ways. 1) Falsifying bank reconciliations. For seven checks on which the employee was the payee, the employee indicated on the bank reconciliations that the payee was a vendor (such as Postmaster). 2) Falsifying disbursement registers. In preparing the disbursement register, the employee omitted ten checks entirely, and omitted the payee and description for four checks. 3) Removing cancelled checks. The Commission found that eight of the fourteen cancelled checks that would have been mailed to the Commission by the bank with the monthly bank statements were missing. Copies of these checks were obtained from the bank.

#### The Hands On Heritage Camp Account

The Acting Executive Director had sole access to the Hands On Heritage Camp checking account – he wrote and signed the checks. There were no bank reconciliations prepared for the Camp account.

#### The Petty Cash Account

The petty cash account had a zero balance and no activity during our review period.

### The Certificate of Deposit Accounts

There were two certificate of deposit accounts. One was from a cash donation, the balance of which was \$10,983.76 as of May 31, 2004. The other was believed to have been a donation, according to the Acting Executive Director. It had a balance of \$40,538.55 as of May 31, 2004.

### State of Delaware Credit Card

In March 2004, the Department of State requested that the employee provide documentation for charges and ATM withdrawals made on her credit card in January and February 2004. The employee did not provide documentation, and continued to make ATM withdrawals through April 2004. According to the Department's Chief of Administration, the card was cancelled on April 29, 2004, the employee was terminated on May 1, 2004, and her final State paycheck was docked for \$688.06 in order to recover the undocumented cash withdrawals.

### CONCLUSION

Based on the results of our review, we concluded that the allegations were substantiated.

### RECOMMENDATIONS

**WE RECOMMEND THAT** the Delaware Heritage Commission:

1. Recover \$3,128.92 from the former employee.
2. Reconcile credit card activity and bank statements on a timely basis.
3. Maintain supporting documentation for all expenditures.
4. Develop internal control procedures for the handling of cash and the disbursement of funds.
5. Implement management review and oversight of reconciliations and financial transactions.
6. Separate responsibility for preparing checks, signing checks, and preparing bank reconciliations among different individuals.
7. Maintain donations of money (Certificates of Deposit) and property (362 shares of Gannett stock) in accordance with the Del. Code, Title 29, § 3205, which states, "... (b) Property acquired by the Commission may be deposited for preservation with the Secretary of State. (c) All money donated to the Commission or received in furtherance of contracts hereunder shall be deposited with the Secretary of Finance and shall be appropriated to the Commission."

Note: As of July 1, 2004, the two Wilmington Trust Company bank accounts were closed and the balances were transferred to the State Treasurer's account.

Dr. Harriet Smith Windsor

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On September 22, 2004, Mr. R. Ronald Draper, Chief Administrative Auditor, and Mr. Edward L. Watson, Field Audit Manager, met with Mr. Albert F. Carter Jr., Deputy Principle Assistant, and Mr. Tim Ferrier, Chief of Administration, to discuss the findings and recommendations contained within our report.

**NOTE:** On August 27, 2004, representatives from the AOA met with Mr. Anthony R. Davolos, Criminal Investigator, Office of Attorney General. As a result of this meeting, all original documents obtained from the Delaware Heritage Commission were given to Mr. Davolos for his review.

### **AUDITEE'S RESPONSE**

Dr. Harriet Smith Windsor

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STATE OF DELAWARE

DEPARTMENT OF STATE

HARRIET SMITH WINDSOR, ED. D.  
SECRETARY OF STATE

October 13, 2004

Mr. Edward L. Watson, CFE  
Field Audit Manager  
Office of Auditor of Accounts  
State of Delaware  
401 Federal Street, Suite 1  
Dover, DE 19901

Dear Mr. Watson:

Thank you for your letter of September 23, 2004 concerning your investigation of Delaware Heritage Commission funds. I appreciate your assistance in this matter.

I wanted to respond to the recommendations contained in your letter.

1. It is my understanding that the Attorney General's Office is pursuing the recovery of the \$3,128.92 from the former employee.
2. It is a policy of the department to reconcile credit card activity and bank statements on a timely basis.
3. It is a policy of the department to require supporting documentation for all expenditures.
4. The department is developing internal control procedures for the handling of cash for the Delaware Heritage Commission.
5. All Delaware Heritage Commission financial transactions are being reviewed on a daily basis by the department financial section.
6. The Commission's (Foundation) two operating accounts with Wilmington Trust have been closed and their financial transactions are now running through the state's financial system. A petty cash account remains. Should this account be used, responsibilities for preparing and signing checks and performing bank reconciliations will be separated.

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Dr. Harriet Smith Windsor

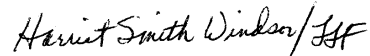
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7. I have directed Tim Ferrier, Chief of Administration, to meet with the Commission Chair to discuss maintaining the certificates of deposit and Gannett stock with the Office of State Treasurer.

Should you need any additional information, please contact Tim Ferrier at 739-4111.

Sincerely,

A handwritten signature in cursive script, reading "Harriet Smith Windsor/HF".

Harriet Smith Windsor, Ed.D.  
Secretary of State

cc: Al Carter  
Tim Ferrier  
Paul Bauernschmidt

Dr. Harriet Smith Windsor  
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**AUDITOR'S COMMENTS**

The Office of Auditor of Accounts concurs that the Department of State has taken appropriate actions in response to our findings and recommendations.

Sincerely,

OFFICE OF AUDITOR OF ACCOUNTS

R. Thomas Wagner, Jr., CFE, CGFM  
Auditor of Accounts

ELW: SPD  
Case Number: 2004-045

cc: Mr. Albert Carter, Deputy Principal Assistant, Department of State  
Mr. Tim Ferrier, Chief of Administration, Department of State  
Mr. Paul Bauernschmidt, Acting Executive Director, Delaware Heritage Commission